

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2175-01  
Bill No.: HB 905  
Subject: Business and Commerce; Revenue Dept.; Taxation and Revenue - Income  
Type: Original  
Date: March 12, 2001

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$2,900,000)	(\$2,900,000)	(\$2,900,000)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$2,900,000)</b>	<b>(\$2,900,000)</b>	<b>(\$2,900,000)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 4 pages.

## **FISCAL ANALYSIS**

### **ASSUMPTION**

The **Department of Agriculture (AGR)** and the **Department of Natural Resources (DNR)** officials assume this bill would not fiscally impact their agencies. DNR provided the following information:

#### **Number of Applicants by Year**

- 1997 = 9
- 1998 = 10
- 1999 = 9
- 2000 = Still in Reporting Period, but expect 8 or 9 companies.

#### **Total Credits Earned by Year**

- 1997 = \$1,904,880
- 1998 = \$3,599,800
- 1999 = \$2,936,182
- 2000 = Still in Reporting Period.
- Total Program Credits Earned through 1-29-01 = **\$9,437,536**

#### **Operational Notes Concerning Potential Future Impacts of the Wood Energy Tax Credit Program:**

- 1) Since these credits can be assigned to third parties they are not always claimed in the same year as they are earned. The data on claims of these credits is available through the DOR.
- 2) Most companies entered the program in their respective 1997 tax years. The applications for their 2000 tax years represent in these cases the fourth year of their five-year eligibility periods.
- 3) The last year for most participating companies is the 2001 tax year.
- 4) Based on the reduction in the amount of companies expected to participate during tax years 2000 and 2001 a current estimate of credits earned in these years is between \$2.5 and \$2.9 million each year.
- 5) This program essentially provides a significant buy-down toward the front-end capital costs of systems that take waste wood and turn it into profitable energy sources.
- 6) While it has to date been used most by charcoal firms the rapidly rising prices of propane and natural gas have led to several new firms considering the use of waste wood for answering their

energy needs. The financial incentive provided by this program can very possibly serve to advance the installation of additional biomass energy production facilities.

ASSUMPTION (continued)

Officials of the **Department of Revenue (DOR)** state this legislation extends the period in which a wood energy producer can claim a tax credit from five years to ten years. DOR assumes the revenue impact is unknown. Extending the claiming period for the tax credit will have little or no administrative impact to the Department of Revenue.

Officials from the **Department of Economic Development (DED)** assume this proposal would have no new impact on DED. It extends the wood energy credit for another 5 years. DNR approves these credits. The only place where DED is involved with the credit is in a section of statute that is not listed in the fiscal note. It requires DED and DNR to certify that equipment purchased, that qualifies for the credit, is equipment that utilizes the latest technology. The statewide fiscal impact or cost of the credit would have to be projected or assumed by DNR.

Officials from the **Office of Administration - Budget and Planning** did not respond to our fiscal note request.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
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**General Revenue Fund**

<u>Loss</u> - Extend wood energy credit from 5 years to 10 years.	(\$2,900,000)	(\$2,900,000)	(\$2,900,000)
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<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$2,900,000)</u></b>	<b><u>(\$2,900,000)</u></b>	<b><u>(\$2,900,000)</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

If a small business is a wood energy producer, they could be economically impacted by the extension of the tax credit from 5 to 10 years.

#### DESCRIPTION

Extends the period in which a wood energy producer can claim a tax credit from 5 years to 10 years.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

**This proposal would result in a decrease in Total State Revenues.**

#### SOURCES OF INFORMATION

Department of Revenue  
Department of Agriculture  
Department of Natural Resources  
Department of Economic Development

NOT RESPONDING: Office of Administration, Budget and Planning



Jeanne Jarrett, CPA  
Director  
March 12, 2001